CHANNEL AREA LOGGERS LTD.

ANNUAL REPORT

1989 - 1990

CHANNEL AREA LOGGERS LTD.

BOARD OF DIRECTORS

Lester Everett - Chairperson

Private Entrepreneur - Chief - Berens River Indian Band

Edmond Berens

Member - Berens River Indian Band

Bill Hudson

Member - Berens River Indian Band

Henry A. McKay

Fisherman - Berens River

Henry G. McKay

Retired (L.T.D.) Airport Manager - Berens River

Jack Clarkson

Entrepreneur - Berens River

Brian Dick

Entrepreneur - Winnipeg

Celia Klassen

Farming - Deloraine

Jeff McDonald

Farmer - Minnedosa

OFFICERS

Lester Everett

President

Gordon P. Trithart

Secretary-Treasurer

Harold Lasn

Manager

HEAD OFFICE: Berens River, Manitoba

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For Year Ended March 31, 1990

CHANNEL AREA LOGGERS LTD. - ANNUAL REPORT

APRIL 1, 1989 - MARCH 31, 1990

I. INTRODUCTION:

Channel Area Loggers Ltd. is a Crown Corporation which was established in 1973 under the Manitoba Natural Resources Development Act. Its principle objective is to create an economically viable logging operation capable of creating employment and training opportunities for residents of Berens River and the surrounding communities.

The Company harvests pulpwood on the eastern side of Lake Winnipeg where a valuable forestry resource exists. There is a serious lack of employment opportunities in this region.

Mechanical harvesters, mainly skidders, are used to harvest spruce pulpwood in eight-foot lengths for sale to Abitibi-Price Inc. at Pine Falls. Abitibi-Price Inc. accepts delivery of the pulpwood at a barge landing on the east side of Lake Winnipeg approximately 30 miles from the cutting area. The product is used to produce newsprint at the Abitibi-Price Pine Falls mill.

The Company's accumulated loss since inception is $2,554,546. The following is a list of the profit/loss figures for the last 10 fiscal years ending March 31st:

	Profit	Loss
1981		173,487
1982		17,262
1983	$38,976	
1984		148,949
1985		235,635
1986		17,901
1987		8,531
1988		207,541
1989		177,512
1990		179,023

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The profit/loss figures in the foregoing table show the company's financial position prior to the receipt of annual general subsidies from the Province. They include receipt of specific subsidies provided to offset development costs. The total provincial assistance for the year ended March 31, 1990 was $179,023. Provincial financial assistance during the three previous years - 1989, 1988 and 1987 were $177,512, $217,832 and $12,931 respectively.*

II. SYNOPSIS OF THE YEAR'S EVENTS:

The disastrous fire in June, 1988 necessitated a new 17 mile dry weather road building project to access prime spruce pulpwood resources. The Company has constructed the first six miles. The total cost of the 17 mile road including two river crossings has been roughly estimated at $520,000. Information extracted from aerial photographs indicated a minimum of 125,000 cords of mature spruce pulpwood in the proposed cutting area.

With assistance from the Government of Canada, three owner/operators received assistance to purchase new skidders. Two of the three operators now own two skidder machines. A skidder owner/operator who has been with the Company for 15 years, found full time employment in another vocation after his skidder was destroyed by fire.

The Company obtained reforestation contracts for 300 acres of scarifying (natural regeneration) and 200 acres of site preparation for

* See page 4

planting. The Department of Natural Resources also contracted with the Company for a special 10,000 seedling tree plant to research the development of a genetically superior strain of spruce. Natural Resources placed 195,000 seedling trees in a frozen snow cache for planting in the spring of 1990.

III. REVIEW OF RESULTS

A. Financial Results

Appended are audited financial statements for the fiscal year 1989-90 prepared by the Provincial Auditor. These statements report a deficiency of revenue over expenditures before the receipt of an operating assistance of $179,023 from the Province of Manitoba. (1988-89 was $177,512.)

A major factor contributing to the 1989-90 overexpenditure was the cost of small wood cullage. Abitibi-Price Inc. does not accept pulp logs which are under three inches in diameter. Logs which are under the regulated size cause severe operational and quality problems for their paper mill. Upon final scaling, Abitibi-Price Inc. found an exceptionally high proportion of undersized pulp logs mixed in with the 17,000 cords at the landing sites. Channel Area Loggers Ltd. was required to sort 7,000 cords at the landing sites to extract the undersized pulpwood. The cost of resorting the logs was $111,731.

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The following table outlines subsidies provided by the Province over the past four years.

		1986-87	1987-88	1988-89	1989-90
1.	General Subsidy to Offset Deficiency of Revenues over Expenditures	$ 8,531	$207,541	$177,512	$179,023
2.	Specific Subsidies				
	Training	4,400			
	Consulting Fees		10,291		
	Sub-Total	$ 4,400	$ 10,291		
3.	Total Assistance	$12,931	$217,832	$177,512	$179,023

The following table illustrates per cord costs for major expenditure categories over the past three years:

Cost Category	1987-88	1988-89	1989-90
Cutters and Contract Wood	$39.62	$41.10	$41.04
Transportation - Wood Haul - Trucks	15.49	13.18	13.73
Company Equipment and Maintenance	2.35	3.67	1.76
Roads	9.76	12.14	7.38
Kitchen and Dorms	2.82	4.33	3.89
General and Administration	17.08	21.74	15.43
Supervision in Bush	.34	.81	.44

The substantial improvement in production was primarily responsible for the per cord improvement in non-variable costs in the above categories of company equipment and maintenance, kitchen and dorms, and bush supervision. In addition, the more important variances with 1988-89 include:

Production Expenses:

- Repairs and Maintenance down $9,865 (less repairs)
- Personnel Transport up $5,061 (reflects volume)
- Freight and Fuel Movement up $4,147 (reflects volume)
- Road Construction and Maintenance down $5,357 (reflects a decrease in access road construction offset by the volume of skidways.

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General and Administrative

There was an increase of $28,069 in general and administrative expenses. The increase in cords produced in part, reflects the substantial decrease in per cord costs of this category. Additionally, important variances within that category are as follows:

- Salaries, wages and benefits increased $42,949. (This was due in part to increases for a full time mechanic $20,000, a part-time foreman $13,000. a year's salary for full-time Manager vs half-year in 1988-9 plus related wage benefits.)
- Legal and Audit up $18,100 (primarily professional accounting fees of $14,092)
- Taxes, Licences and Fees up $5,844 (mainly due to Provincial Sales Tax assessment).
- Interest down $23,421 (the operating loan buildup experienced in 1988-9 was paid through Provincial financial assistance).

B. Production

The following is a table of the harvested and delivered pulpwood for the past four years:

Annual Pulpwood Production in Cords

For the Years Ending March 31st

	1987	1988	1989	1990
Snipper	4,554	3,934	5,232	6,590
Cut & Skid	13,546	10,489	5,541	10,403
Total	18,100	14,423	10,773	16,993

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Annual Delivered (Sold) Pulpwood Volume in Cords

As at March 31st

1990	16,993
1989	10,773
1988	14,423
1987	18,100

Production increased by 6,220 cords over the previous year's output but was 1,507 cords under budget. However, this improvement was negated financially by the inclusion of undersized diameter pulpwood.

C. Related Activities

In 1989-90, the Company employed a total of 22 people. Wages and benefits and supervisory costs total $319,387. This compares to the previous year total of $208,407. Additionally, payments to and on behalf of contracts for wood purchases, hauling and road construction amounted to $870,322 in 1989-90 (1988-89 $599,046). The foregoing cost increases reflect a production increase over the prior year. Approximately 30% of total wages were paid to residents of Berens River, while 55% were paid to individuals of Indian ancestry from other areas of the Province.

The Company remained the second largest employer in the Berens River area. Commercial fishing activities employ more local individuals than Channel Area Loggers Ltd.

The Company maintained a commissary and grocery store facility for employees. This facility provided a variety of food products, confectionary items, and winter clothing, and in addition served as a mail order office for skidder and power saw parts.

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D. Training

The Company provided on-the-job training to its employees as required.

E. Other

The Secretary to the Company's Board of Directors was provided by the Provincial Government. This position provided administrative and management support to the operation and facilitated adequate liaison between the Company and Government and between the Board of Directors and management.

Manitoba

Office of the Provincial Auditor

CHANNEL AREA LOGGERS LTD.

Auditor's Report and Financial Statements
for the year ended March 31, 1990

Office of
the Provincial Auditor

905 - 386 Broadway
Winnipeg, Manitoba, CANADA
R3C 3R6

REPORT OF THE PROVINCIAL AUDITOR'S OFFICE

We have examined the balance sheet of Channel Area Loggers Ltd. as at March 31, 1990 and the statements of revenues and expenditures and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of Channel Area Loggers Ltd. as at March 31, 1990 and the results of its operations and the changes in its financial position for the year then ended in accordance with the accounting policies stated in note 2 applied on a basis consistent with that of the preceding year.

Winnipeg, Manitoba
September 21, 1990

F. H. Jackson, CA
Provincial Auditor

CHANNEL AREA LOGGERS LTD.

Balance Sheet
as at March 31, 1990
(with 1989 figures for comparison)

A S S E T S	1990	1989
CURRENT ASSETS:		
Accounts receivable (Note 3)	$ 225,628	$ 63,218
Subsidy receivable from the Government of the Province of Manitoba	156,535	385,053
Loan receivable from sub-contractor re purchase of equipment - secured	6,133	-
Inventories (Note 4)	72,000	66,110
Prepaid expenses	319	-
Total current assets	460,615	514,381
FIXED ASSETS (Note 5)	264,997	199,957
TOTAL	$ 725,612	$ 714,338
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Excess of outstanding cheques over bank balance	$ 129,904	$ 15,551
Bank demand loan (Note 6)	115,000	361,000
Accounts payable (Note 7)	180,618	37,697
Total current liabilities	425,522	414,248
SHAREHOLDERS' EQUITY		
Capital stock (Note 8):		
Authorized: 35,000 common shares, maximum consideration not to exceed $350,000		
Issued: 30,009 shares	300,090	300,090
TOTAL	$ 725,612	$ 714,338

The notes are an integral part of the financial statements.

Approved by the Board:

Director_____

Director_____

CHANNEL AREA LOGGERS LTD.

Statement of Revenues and Expenditures
for the year ended March 31, 1990
(with 1989 figures for comparison)

	1990	1989
REVENUES:		
Pulpwood sales	$ 1,322,891	805,415
Commissary sales	171,605	150,430
Board charges	41,347	28,066
Miscellaneous	39,463	69,717
Reforestation	28,330	-
Total revenues	1,603,636	1,053,628
EXPENDITURES:		
Direct logging costs (Schedule 1)	1,378,549	881,459
General and administrative (Schedule 2)	262,215	234,146
Commissary	123,298	120,205
Reforestation	24,430	-
Total expenditures	1,788,492	1,235,810
	(184,856)	(182,182)
OTHER INCOME		
Gain on disposal of fixed assets	5,833	4,670
Deficiency of revenues over expenditures before operating assistance from the Government of the Province of Manitoba	179,023	177,512
Operating assistance from the Government of the Province of Manitoba - General subsidy	179,023	177,512
EXCESS OF REVENUES OVER EXPENDITURES	$ -	$ -

The notes are an integral part of the financial statements.

CHANNEL AREA LOGGERS LTD.

Statement of Changes in Financial Position
for the year ended March 31, 1990
(with 1989 figures for comparison)

	1990	1989
CASH PRODVIDED BY (USED FOR):		
OPERATING ACTIVITIES:		
Items not involving cash:		
Depreciation	$ 61,379	$ 59,043
Gain on disposal of fixed assets	(5,833)	(4,670)
	55,546	54,373
Net change in non-cash working capital balances related to operations	196,687	(77,839)
	252,233	(23,466)
INVESTING ACTIVITIES:		
Additions to fixed assets	(141,586)	(54,857)
Net proceeds from disposal of fixed assets	21,000	14,335
Decrease in guarantee deposit	-	900
	(120,586)	(39,622)
INCREASE (DECREASE) IN CASH	131,647	(63,088)
CASH DEFICIENCY AT BEGINNING OF PERIOD	(376,551)	(313,463)
CASH DEFICIENCY AT END OF PERIOD	$ (244,904)	$ (376,551)
Represented by:		
Bank loan	$ (115,000)	$ (361,000)
Outstanding cheques	(129,904)	(15,551)
	$ (244,904)	$ (376,551)

The notes are an integral part of the financial statements.

CHANNEL AREA LOGGERS LTD.

Schedule of Direct Logging Costs
for the year ended March 31, 1990
(with 1989 figures for comparison)

	1990	1989
INVENTORY AT BEGINNING OF THE YEAR	$ -	$ -
PRODUCTION EXPENSES:		
Contract wood purchases	511,680	326,287
Contract hauling to landing	233,246	142,006
Cutters wages and fringe benefits	185,737	116,420
Road construction and maintenance, net	125,396	130,753
Small wood cullage	111,731	-
Kitchen and dormitory	66,060	46,639
Timber dues	44,797	24,052
Depreciation	32,798	25,855
Repairs and maintenance	29,820	39,505
Personnel transport	15,068	10,007
Freight and fuel movement	11,268	7,121
Supervision	7,382	8,668
Forwarding to roadside	3,259	3,438
Sundry	307	708
Total production expenses	1,378,549	881,459
INVENTORY AT END OF YEAR	-	-
DIRECT LOGGING COSTS	$ 1,378,549	$ 881,459

CHANNEL AREA LOGGERS LTD.

Schedule of General and Administrative Expenses
for the year ended March 31, 1990
(with 1989 figures for comparison)

	1990	1989
Salaries, wages and fringe benefits	$ 126,268	$ 83,319
Legal, audit and accounting	33,239	15,139
Depreciation	28,581	33,188
Insurance	17,966	21,670
Interest and service charges	17,355	40,776
Taxes, licences and fees	11,024	5,180
Travel and accommodation	8,008	8,469
Communications	6,157	4,325
Mobile home	4,724	6,410
Office supplies and utilities	4,087	4,541
Directors' fees	3,600	3,618
Miscellaneous	1,346	8,887
Bad debts	(140)	(6,136)
Consulting fees	-	4,760
GENERAL AND ADMINISTRATIVE EXPENSES	$ 262,215	$ 234,146

CHANNEL AREA LOGGERS LTD.

Notes to the Financial Statements
March 31, 1990

1. Nature of Operations

Channel Area Loggers Ltd. was established in 1973 under The Manitoba Natural Resources Development Act for the purpose of establishing an economically viable logging operation creating employment and training opportunities for residents of Berens River and surrounding communities.

2. Significant Accounting Policies

General:

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles, except for the matter pertaining to administrative expenses explained below:

Inventories:

Pulpwood inventory is valued at the lower of cost or net realizable value based upon the agreed price of deliveries to the purchaser, less an allowance for cullage and shrinkage.

Other inventories are valued at cost.

Fixed assets and depreciation:

Fixed assets are stated at cost. It is the company's policy to provide for depreciation of fixed assets on a straight line basis at rates which will amortize over the estimated useful life of each asset. The annual rates are:

Buildings and trailers	10%
Machinery and equipment	10-25%

Revenue recognition:

Pulpwood sales are recognized on the basis of pulpwood delivered to landing and scaled in accordance with the terms of the sales contract.

Administrative expenses:

Certain administrative expenses, as detailed in Note 9, are provided at no charge by the Government of the Province of Manitoba. These amounts are not reflected in the financial statements.

CHANNEL AREA LOGGERS LTD.

Notes to the Financial Statements
March 31, 1990

3. Accounts Receivable

The major categories of accounts receivable are:

	1990	1989
General	$ 204,035	$ 53,727
Government of the Province of Manitoba	7	10,414
Contract cutters	21,586	(923)
	$ 225,628	$ 63,218

4. Inventories

The major categories of inventory are:

	1990	1989
Commissary supplies	$ 2,764	$ 2,900
Parts and supplies	15,983	12,262
Gasoline, diesel fuel and oil	45,503	47,128
Kitchen supplies	7,750	3,820
	$ 72,000	$ 66,110

CHANNEL AREA LOGGERS LTD.

Notes to the Financial Statements
March 31, 1990

5. Fixed Assets

The cost of major classes of fixed assets and the related accumulated depreciation are:

	1990			1989
	Net Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Buildings and trailers (net of funding by the Government of Canada of $67,298)	$ 252,310	$ 202,572	$ 49,738	$ 68,385
Machinery and equipment (net of funding by the Government of the Province of Manitoba and the Government of Canada of $160,090)	289,320	196,027	93,293	131,572
Road (net of funding by the Government of Canada of $273,164	-	-	-	-
Road construction in progress	121,966	-	121,966	-
	$ 663,596	$ 398,599	$ 264,997	$ 199,957

6. Bank Demand Loan

The bank demand loan is guaranteed by the Government of the Province of Manitoba to a maximum of $500,000 including unpaid interest.

CHANNEL AREA LOGGERS LTD.

Notes to the Financial Statements
March 31, 1990

7. Accounts Payable

The major categories of accounts payable are:

	1990	1989
Trade	$ 137,886	$ 4,131
Wage deductions	35,387	2,694
Employee	4,800	3,500
Government of the Province of Manitoba	2,545	27,372
	$ 180,618	$ 37,697

8. Capital Stock

The issued shares are held by the Government of the Province of Manitoba except for nine shares which are held by the appointed directors in trust for Her Majesty the Queen in right of the Province of Manitoba.

9. Services Provided by the Government of the Province of Manitoba

The Government of the Province of Manitoba provides the services of the Secretary-Treasurer and other miscellaneous administrative services at no charge to the Company. The cost of these services is approximately $43,300 (1989 - $46,000).

10. Economic Dependence

The Company is economically dependent on the Government of the Province of Manitoba.

11. Imputed Interest Cost Information

The following information is supplied in accordance with the request of the Minister of Finance.

The annual borrowing cost to the Government for the average investment of $300,090 in share capital at the weighted average rate of 10.05% (1988-10.52%) paid by the Government in respect of its 1989 debt is $30,200 (1988 -$31,600).